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Directors' Monitoring Role, Ownership Concentration and Audit fees

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We found that Board of Directors' characteristics are significant in relation to audit fees. Some of the Audit Committee characteristics are affected by the collegiality principle in relation to the Board of Directors' characteristics. The consultative role of audit committee directors is dominated by the role of the Board of Directors. Mandatory audit fees, and not total auditors' remuneration is included in this study. While other studies assess mainly one corporate governance mechanism in relation to audit fees, we include the corporate governance mechanisms that are directly related to auditors' scope. This paper can be used as a tool for audit practitioners and corporate executives to seek a better auditor-client relationship.

Keywords

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JEL classification*:* M41, M42, G34

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1 INTRODUCTION

The UK corporate governance code is highly recommended rather than being enforced on companies, to achieve a better and more transparent relationship between shareholders and management. The code summarises different principles such as leadership, effectiveness, accountability, remuneration and principles governing relations with shareholders. The Board of Directors, considered one of the governance mechanisms, is responsible for assigning external auditors, approving audit fees, re-assigning external auditors, engaging with external auditors for non-audit assignments and establishing audit committees to co-operate with external auditors (FRC, 2012). In addition to the guidelines mentioned in the UK code, the Financial Service Authority aims for a better level of transparency by indicating that block holders should be disclosed separately in the financial statements.

The role of external auditors has always been an issue of debate regarding the nature, responsibility and scope of tasks performed by auditors. The increase in monitoring costs, the change in the legal and the regulatory regime, that are expected to protect shareholders, are not leading to an increase in audit quality (Houghton et al., 2013). Poor reporting quality is due to the poor involvement of the Big Four firms in some markets (Habib and Jiang, 2015) which will lower audit fees.

The existence of agency conflict in the Management-Board of Directors' relationship affects the external middle layer of governance, the external auditor. Public confidence for paying more audit fees to achieve better audit quality might be increased if banning non-audit services for auditors (Francis, 2004).

The study contributes to the literature by providing extensive understanding of the influence of the board of directors, audit committees' formation and effectiveness, and ownership structure on audit fees. Audit fees are used as a proxy of audit quality (Kwon et al., 2014). Some studies in the field of audit fees did not differentiate between financial and non-financial institutions and ignored the audit committee characteristics factor (Carcello et al., 2002), others conducted their research on US and UK financial intuitions only (Jizi and Nehme, 2018; Nehme and Jizi. 2018). In this paper, we examine the determinants of the recurring yearly audit fees rather than total auditors' remuneration that may include audit and non-audit fees which have a negative impact on audit fees (Abdul et al., 2020 and Shao, 2006), as a specific and measurable agency cost (Leventis et al., 2011). The sample is made up of companies listed at the FTSE 350 excluding financial institutions to retain homogenous sample. Our findings may help top executives and decision makers to focus and utilize governance mechanisms that may lead to a decrease in audit fees and to resolve the mechanisms that are causing audit fees to increase. Alternatively, to focus on some governance mechanisms that lead to an increase in audit quality because of more effort by external auditors (Lin et al., 2018). The remainder of the paper is as follows: literature and hypotheses development are covered in section two, the sample selection and tested models are included in the research design in section three, section four elaborates the results and section five concludes.

2 PRIOR LITERATURE AND HYPOTHESES DEVELOPMENT

2.1 Board Characteristics

Role Duality. Previous literature provides mixed signals concerning the merits and hitches of CEO/chair dual roles. While Jizi and Nehme (2018) conclude a positive relationship between audit fees and role duality, others indicate a switch to lower auditor quality when the CEO is operating as a chairperson of the BO. Weak corporate governance companies tend to engage with lower auditor quality characterised by lower audit fees (Lin and Liu, 2009). An unhealthy corporate performance, in the presence of role duality, might push board members to demand more audit quality and subsequently to incur higher audit fees (Judge et al., 2003). The demand for better audit quality and the willingness to pay higher audit fees declines in the presence of role duality (Niskanen et al., 2011). CEO duality plays a major role in minimising information costs and enriching command leadership (Brickley et al., 1997). Minimising agency/information costs is associated with better information asymmetry and less work demanded from auditors. Knowing that external audit reports are used as a tool for assessing management stewardship, a CEO with dual position have a tendency to limit outside supervision (Desender et al., 2011). Accordingly, lower quality auditor with lower audit fees are in place. The hypothesis to be empirically tested would be as follows:
$H1_a$. There is a negative relationship between role duality and audit fees.

Board Size. Large number of directors provide better monitoring over the process of financial reporting (Anderson et al., 2004). Boards with relatively larger size are more likely to benefit from diversified expertise and less workload (Zahra and Pearce, 1989). Accordingly, the efficiency factor is crucial in big corporate boards in allocating control activities to achieve effective monitoring (John and Senbet, 1998). Smaller boards are likely to be more effective in coordination and communication (Dey, 2008) that may lead to less work demanded from external auditors and accordingly lower audit fees. Boards of directors vary in their technical and educational backgrounds. Boards with relatively large size benefit from diversification in directors' experience and they are not be exposed to management dominance (Monks and Minow, 1995). Carcello et al. (2002) argue that larger boards with diligent members require more audit quality from external auditors compared with companies with less diligent board members.
Large board of directors demand more monitoring from auditors, which is associated with an increase in chargeable hours and audit fees (Karim et al., 2016). The hypothesis to be empirically tested is as follows:
$H1_b$. There is a positive relationship between boards of directors' size and audit fees.

Board Independence. Independent directors strengthen the effectiveness of the monitoring process through external auditors (Jizi and Nehme, 2018; Fama and Jensen, 1983; Weisbach, 1988). In-line with agency theory, independent directors demand higher quality audit for the benefit of protecting stockholders' wealth and reputation. Pervious literature highlights the tendency of independent directors toward hiring quality auditors (Abbott and Parker, 2000) to achieve better reporting quality (Uang et al., 2006). Similar to Carcello et al. (2002) and Zaman et al. (2011), the percentage of independent directors on the boards have a major influence on audit fees.

Chen and Zhou (2007) argue that independent Board of Directors demands a better auditor reputation. Carcello et al. (2002) state that greater preponderance of independent members will

lead to more concern about audit quality in comparison to executive directors. This will raise the intention to 'purchase' higher quality audit service to ensure reliable audited financial information, thus leading to an increase in the audit fees. The hypothesis to be empirically tested would be as follows:

H1c. There is a positive relationship between the proportion of independent board members and audit fees.

2.2 Audit Committee Characteristics

Audit Committee Size. The larger the audit committee size the more authority it possesses (Kalbers and Fogarty, 1993) with a wider knowledge (Karamanou and Vafeas, 2005). In contrast, smaller audit committees depend on external auditors. It is implied that the characteristics of audit committees can be substituted by means of a corporate governance mechanism. Having a larger audit committee is shown to prevent the payment of inflated audit fees (Lin, 2018). Better quality of financial reporting and auditing is maintained and governance mechanisms are enhanced through proper construction and size of audit committees (Cohen et al., 2004). Audit committee members protect their reputational capital by demanding better external audit quality (Mat Zain et al., 2015). Zaman et al. (2011) emphasize the positive relationship between the size of the audit committee and internal control quality: larger committees have enhanced resource and effectiveness leading to greater amounts spent on reviewing the scope and the quality of auditors' output. Large audit committees with diverse backgrounds are engineered to increase the demand for better quality auditors (DeFond and Zhang, 2014) associated with higher audit fees. The hypothesis to be empirically tested would be as follows:

H2a. There is a positive significant relationship between audit committee size and audit fees.

Audit Committee Independence. Audit committee size and audit committee independence are said to be correlated. Ghafran and O'Sullivan (2017) indicate a negative relationship between audit fees and the independence of audit committees. It is found that audit committee independence is negatively related to dismissing external auditors after issuing a going-concern or unfavourable audit opinion (Carcello and Neal, 2003). Carcello and Neal (2000) reveal that companies have lower chances to receive going-concern reports when their audit committees have more affiliated directors. Audit committee independence played a significant role in the dismissal of Anderson before the scandal (Chen and Zhou, 2007). From a theoretical perspective, audit committees with independent directors are perceived to be an objective monitoring tool between principles and agents (Collier and Gregory, 2000).

The audit committee, supported by the existence of independent directors, will lead to strengthening internal controls, resulting in less substantive assessment and testing required by external auditors, leading to lower audit fees (Collier and Gregory, 1996). Therefore, the hypothesis to be empirically tested is as follows:

H2b. There is a negative relationship between audit committees' independence and audit fees.

Audit Committee Effectiveness. There are mixed findings in relation to the impact of audit committee meetings on audit fees. While Ellwood and Garcia-Lacalle (2016) results indicate a non-significant impact of audit fees by audit committee meetings, Chen and Zhou (2007) argue that the frequency of audit committee meetings is associated with audit committee effectiveness. It has been found that after Andersen, the number of audit committee meetings is significantly and

positively related to the choice of a big four audit firm to be assigned, more active audit committees demanding better auditor reputation. Abbott and Parker (2000) find a significant positive relationship between effectiveness of audit committees and choosing a specialised and high quality auditor. Audit committee independence and audit fees have a negative relationship indicating that independent audit committee directors have more tendency to shield their reputational capital and avoid legal consequences paying higher audit fees to better quality auditors (Sellami and Cherif, 2020). Active audit committees are expected to lower audit fees. Being active, audit committees require more time from external auditors leading to an increase in audit fees (Krishnan and Visvanathan, 2009). The hypothesis to be empirically tested would be as follows:

H2c. There is a positive relationship between audit committees' frequency of meetings and audit fees.

Audit Committee Expertise. The competency of audit committees is recognised more when financial and accounting experts exist (Cohen et al., 2002). Financial expertise of audit committee directors has a significant impact on the reporting quality and process (Tanyi and Smith, 2015). Prior literature has no consistent evidence regarding the impact of audit committees' expertise on audit fees. Zaman et al. (2011) indicate that there is no impact of the expertise factor on audit fees. But Carcello et al., (2002) and Abbott et al. (2003) indicate that the presence of financial expertise among audit committee members is shown to have positive impact on audit fees. Financially expert audit committee members possess better-enhanced monitoring skills and demand more audit work from external auditors. Ghafran and O'Sullivan (2017) state that a positive relationship exists between audit committee financial and accounting expertise and audit quality associated by audit fees. Based on agency theory, regarding the monitoring role of principals, the presence of financial experts within audit committees is said to positively affect audit quality. This is due to financial experts' monitoring role and their intent to comply effectively with the principal-agent conceptual framework (Goodwin-Stewart, 2006). The hypothesis to be empirically tested is as follows:
H2d. There is a positive relationship between audit committee directors' financial expertise and audit fees.

2.3 Ownership Concentration.

As part of assessing corporate governance mechanisms and their impact on audit fees, ownership concentration is considered an essential factor (Desender et al., 2013). Companies with weak governance mechanisms are characterised to have block holders (Lin and Liu, 2009). Ownership concentration offers controlling shareholders more power leading to better monitoring, more disciplined managers and reduced agency cost associated with lower audit fees (Bozec and Dia, 2017). AlQadasi and Abidin (2018) state that there is a negative relationship between the demand for extensive audit services and ownership concentration. Having said that weak corporate governance is characterised by the existing of block-holders, companies with effective governance mechanisms demand more audit services leading to an increase in audit fees. Less quality auditors are accepted by block-holders (Quick et al., 2018).

Block-holders are involved in monitoring activities over problems causing high agency cost. Accordingly, managers disclose more information in annual reports in order to minimise agency cost where ownership concentration exists (Huafang and Jianguo, 2007). Along with previous studies (Dao et al., 2008 and Lin and Liu, 2009) block/high ownership is defined by shareholders holding more than 5% of companies' shares. Therefore, the hypothesis to be empirically tested would be as follows:

H3. There is a negative relationship between ownership concentration/block holders and audit fees.

2.4 Control Variables

The majority of non-financial corporations comprising the sample are assets-based companies, where assets are the main driver for future economic growth and profit. Therefore, the size of the companies is measured by total assets. Leverage is measured by long-term debt divided by total assets (Jorjani and Safari Gerayeli, 2018). Including a leverage variable to control companies' risk is crucial for evidencing an external auditor corporate governance role (Fan and Wong, 2005) and related additional audit fees. Director monitoring of creditors and lenders, by leverage, is not sufficient to prevent directors from over optimistic financial reporting, that require additional work and chargeable audit hours (Uang et al., 2006). For Broye and Weill (2008), highly leveraged companies demand higher audit quality and accordingly higher audit fees. Companies that are more profitable are more likely to pay premium fees for better audit quality (Abbott and Parker, 2000). Companies' profitability is measured by return on assets ratio. Lin and Liu (2009) consider that liquidity plays a significant role in switching to a lower auditor quality and accordingly lower audit fees. Liquidity is measured by the ratio of current assets over total assets.

Industry membership is controlled in order to study the changes in audit fees when line of industry differs (Johnstone, 2000). Industry sections are classified into six groups with a dummy measurement. Line of industry data is extracted from FTSE codes for listed companies.

Based on the above literature, the relationship between the different independent variables (Board characteristics, audit committee and ownership concentration) and the dependent variable (audit fees) indicate a demand nature rather than a supply perspective.

2.5 The Supply and Demand Side of Audit Pricing

From a supply perspective, external auditors, when working on complex fair value measurements critical accounting estimates, charge higher audit fees (Ettredge, Xu, and Yi, 2014). Krishnan and Visvanathan (2009) mention that companies with large losses incur high audit fees since auditors tolerate higher audit risk. Audit may charge and supply higher audit fees when there is an increased liability (Li et al., 2019). In addition, companies with low risk assessment incur lower audit fees. Auditors may reduce the nature, extent and timing of audit fees because of their assessment (Ghosh and Tang, 2015).

From a demand perspective, more audit assurance is demanded from independent board members leading to an increase in audit fees (Bliss, 2011). Active audit committees are keen to achieve a better audit quality. More audit effort is required from external auditors leading to higher audit fees (Tsui et al., 2001).

Knowing the sample of this research is made up of companies listed at the FTSE 350; these companies are subject to heavy regulations and precise applicable standards. Accordingly, directors demand better audit quality and financial reporting process (Willekens and Simunic, 2007). Divers and large audit committees are characterized to demand more audit quality as well resulting in more audit fees (Ellwood and Garcia-Lacalle, 2016). The research objective and scope is to assess the impact of corporate governance mechanisms on audit pricing. Accordingly, the demand side is used to develop the research arguments and hypotheses.

3 RESEARCH DESIGN

3.1 Sample Selection

Companies are selected from the FTSE 350 database that represents 350 companies in the UK. FTSE 350 is an index based on market capitalisation weighted stock market incorporating the largest 350 companies by capitalisation, which have their primary listing on the London Stock Exchange" (FTSE, 2010). Financial institutions and utilities are excluded due to their differing regulations and financial structures, which reduce the role of the Board of Directors in these types of companies (Chen et al., 2010). The initial sample size is 1400 (350*4 years) companies for a four years period. The final tested sample size is 908 regressed observations.

Four years' data is collected from 2012-2015 companies' annual reports, helping in understanding how audit fees vary during that period – one in which especially economists and different stakeholders were asking about the external auditor role after various accounting scandals. Analysing data collected over four years helps highlight whether companies are abiding by the UK Corporate Governance Code and its 'Comply and Explain' approach.

3.2 Model Specification

The econometric model of this empirical study is as follows:

$$AF=\beta1+\beta2BSt+\beta3BIt+\beta4RDt+\beta5ACSt+\beta6ACIt+\beta7ACMt+\beta8FINEXPt+\beta9OCt+\beta10LnTAt+\beta11ROAt+\beta12LQDt+\beta13LeVt+\beta14InDt+e$$

Dependent variable

- AF (Audit Fees) = natural log of external audit fees

Board of Directors' variables

- BS (Board of Directors size) = number of members serving on the Board of Directors
- BI (Independent Board members) = the percentage of directors on the board who are independent directors
- RD (Role Duality) = a dummy variable given the value of 1 if the CEO is also chairman of the board and 0 otherwise

Audit committee variables

- ACS (Audit committee size) = number of members serving on the audit committee
- ACI Audit Committee Independence= the percentage of directors on the audit committee who are outside directors
- ACM (Audit Committee Effectiveness) = frequency of audit committee meetings
- FINEXP (Audit committee financial expert directors) = the percentage of members of the audit committee who are financial experts. Information about the financial expertise were extracted from the annual reports.
- *Ownership variable*
- OC (Ownership concentration/Block holders) = ratio of shareholders owning five per cent of equity against companies' equity

Firms-specific control variables

- LnTA (Companies' size) = total assets

- ROA (Profitability) = net income divided by total assets
- LQD (Liquidity) = current assets divided by total assets
- LEV (Leverage) = long-term liabilities divided by total assets
- InD (Industry) = Type of industry from FTSE 350 schedules

97.3% of the FTSE 350 companies are audited by Big Four auditors. Accordingly, auditor type variable is not included as part of measuring audit quality. In addition, going concern variable is not included as a potential proxy to measure audit quality since the majority of tested companies do not have any going-concern issues.

Companies are classified based on the Financial Times Stock Exchange (FTSE) and Dow Jones Industrial (DJI) Industry Classification Benchmark (ICB) as follows:

TABLE 1- Companies' Classification

FTSE / DJI INDUSTRY CLASSIFICATION BENCHMARK (ICB)		
0001	Oil & Gas	77
1000	Basic Materials	88
2000	Industrials	285
3000	Consumer Goods	103
4000	Health Care	31
5000	Consumer Services	253
6000	Telecommunications	21
9000	Technology	50
2012		227
2013		229
2014		229
2015		223
N=		908

Source: FTSE Client Service

4 RESULTS AND DISCUSSION

4.1 Descriptive Statistics

The median of audit fees is 700,000 British Pounds. Among governance variables, the median of role duality (RD) indicates that most companies do not have major role duality issues. The average size of the Board of Directors (BS) is nine members. The mean value of BI is 0.584 indicating that just over half of the companies had BI serving on the board.

The median of audit committee members is three. Thus, the majority of companies tested comply with the governance code related to audit committee establishment guidelines (minimum three members). It is noted also that some companies have two audit committee members, which is allowed for smaller companies. For audit committee independence (ACI), a median result of one indicates that the majority of companies tested have independent audit committee membership.

Audit committee meetings vary significantly. Some are held once per year while others are held 15 times per year. The financial literacy of audit committee directors (FINEXP) results indicate that some companies do not have any audit committee members with financial expertise, while others have audit committees with all members possessing financial expertise. The ownership concentration (OC) median is 26 per cent.

TABLE 2 - Descriptive Statistics (n=908)

	Minimum (Maximum)	Mean (Median)	Standard Skewness	Standard Kurtosis	Standard Deviation
Audit Fees	28,000 (39,649,416)	1,854,190 (700,000)	5.792	43.967	3,918,626
Role Duality	0.000 (1.000)	0.042 (0.000)	4.576	21.938	0.200
Board Size	5.000 (22.000)	9.340 (9.000)	1.110	4.881	2.485
Board Independence	0.000 1.000	0.584 (0.570)	0.024	3.405	0.126
Audit Committee Size	2.000 (8.000)	3.629 (3.000)	1.236	5.339	0.862
Audit Committee Independence	0.000 (1.000)	0.855 (1.000)	-1.906	5.156	0.300
Audit Committee Meetings	1.000 (15.000)	4.031 (4.000)	2.362	13.697	1.462
Financial Experts	0.000 1.000	0.348 (0.330)	1.416	5.990	0.181
Ownership Concentration	0.000 (1.000)	0.294 (0.260)	0.760	3.263	0.194
Total Assets (£'000)	34,130 (206,042,797)	6,362,582 (1,408,132)	6.733	54.936	19,600,000
Return on Assets	-1.270 (1.140)	0.070 (0.060)	-0.361	39.042	0.118
Liquidity	0.030 (0.980)	0.395 (0.370)	0.620	2.954	0.207
Leverage	0.000 (1.180)	0.298 (0.270)	0.706	3.530	0.193
Oil & Gas	0.000 (1.000)	0.085 (0.000)	2.981	9.885	0.279
Basic Materials	0.000 (1.000)	0.097 (0.000)	2.725	8.425	0.296
Consumer Goods	0.000 (1.000)	0.113 (0.000)	2.438	6.943	0.317
Industrials	0.000 (1.000)	0.313 (0.000)	0.808	1.652	0.464
Consumer Services	0.000 (1.000)	0.279 (0.000)	0.988	1.975	0.449
Telecomm.	0.000 (1.000)	0.023 (0.000)	6.345	41.262	0.150
Health Care	0.000 (1.000)	0.034 (0.000)	5.131	27.326	0.182
Technology	0.000 (1.000)	0.055 (0.000)	3.899	16.198	0.228

The Spearman correlation matrix is used to test the multicollinearity assumptions. There are no significant multicollinearity problems among variables as correlation values are relatively low. The Variance Inflation Factor (VIF) is used as well and there was no evidence of major multicollinearity problems.

4.2 Multivariate Statistics

Time series panel regression is used (Table 3). The Random - Effects GLS regression is used with a robust standard error to fit with non-parametric data.

Consistent with the expectation, there is a negative significant relationship between audit fees and role duality (β= -.361, p .01). It is concluded that when a chief executive officer is not holding a position of chairperson of the Board of Directors' tasks and responsibilities, audit fees would increase. Role duality gives excessive power to the individual holding the two positions, which may lead to lower audit fees. This conclusion aligns with the results of Niskanen et al. (2011) where the demand for better audit quality and the willingness to pay higher audit fees declines in the presence of role duality. A CEO with dual roles might have a tendency to limit outside supervision knowing the audit report will be used to assess management stewardship (Desender, 2011). Less supervision is associated with less demand for audit services leading to a decrease in audit fees. On the other hand, with role duality the decision-making process is facilitated; supporting good stewardship.

The Board of Directors' size shows a positive significant relationship with audit fees (β= .079, p .01). This result supports the expected relationship between board size and audit fees ($H1_b$). Having large board of directors indicate diverse members who are keen about their reputation resulting in more demand for audit quality and financial reporting process (Willekens and Simunic, 2007). The results are consistent with the findings of Karim et al. (2016) who state that large Board of Directors demand more monitoring from auditors which is associated with more chargeable hours and audit fees. The results support the conclusion by Carecello et al. (2002) who argue that larger boards with diligent members require more audit quality from external auditors compared with companies with less diligent board members. In addition to the theoretical argument that agency problems are resolved by assigning high quality auditor.

Consistent with expectation, there is a positive significant relationship between board independence and audit fees (β= .917, p .01). This result indicates that independent board members require and demand better audit quality compared to executive board members. Independent board members are known to have impact on audit fees (Zaman et al., 2011) because they strengthen the reporting system through assigning quality auditors (Jizi and Nehme, 2018). In theory, more agency cost through heavy monitoring from directors leads to a variance of audit quality (Dickinson and Villeval, 2008). The results align with the argument that agency cost is minimised by the existence of more independent members that will help in reducing the gap with external auditors (Uang et al., 2006) and consequently better audit quality. Our results align with the results of Chen and Zhou (2007) who conclude that independent directors demand better auditor reputation and audit quality. In addition, the results are consistent with the results of Carcello et al. (2002) who state that the greater preponderance of independent members will lead to more concern about audit quality.

As for audit committee characteristics, only frequency of meetings (β= .112, p .01) and the level of financial experts' existence within an audit committee (β= -.209, p .05) show a significant impact on audit fees. The size and independence of audit committee variable show to have no significant impact on audit fees.

Consistent with the expectation ($H2_c$), there is a positive significant relationship between audit committee frequency of meetings and audit fees (β= .112, p .01). Effective audit committees lead to an increase of audit fees. It is due to the nature of audit committees' tasks that are closely inter-related with external auditors' work. Chen and Zhou (2007) indicate that more active audit committees assign Big Four external auditors, perceived as better quality auditors. More frequent

audit committee meetings help to reduce potential financial reporting problems (Farber, 2005). This result aligns with the theoretical agency framework where audit committee meet more to mitigate potential agency problems (Sharma et al., 2009) and to maintain good quality audit.

Contrary to the expectation ($H2_d$), there is a negative significant relationship between audit fees and audit committee members with financial expertise. This result indicates that external auditors incur additional time and charge additional audit fees to cover the absence gap of financial experts in an audit committee. One of the main objectives for establishing audit committees is to enhance the monitoring tool of shareholders over management from an agency theory perspective. The absence of financial experts from audit committees, the role of external auditors is considered important vis-à-vis the classic shareholder-management problem (Habib and Bhuiyan, 2011).

Consistent with the expectation (H_3), there is a negative significant relationship between ownership concentration and audit fees (β= -.270, p .05). Since block holders have a controlling power and more access to companies' information, they do not demand excessive work from external auditors as all data needed is obtained from the company itself. Subsequently, when block holders/ownership concentration exists, higher audit fees may not be a demanding issue. The results align with Lin and Liu's study (2009) where there is a direct relationship between ownership concentration and a change to a lower audit quality auditor. In addition, ownership concentration offers controlling shareholders more power leading and reduced agency cost associated with lower audit fees (Bozec and Dia, 2017).

As for control variables, companies' size (LnTA) results in a positive significant relationship with audit fees. It can be concluded that larger companies demand better audit quality and get charged higher audit fees as larger companies consist of a larger number of shareholders or share capital. Better audit quality is demanded for better reputation among stakeholders, helping large companies to obtain and maintain a good line of credit with financial institutions (Haskins and Williams, 1990). Profitability (ROA), liquidity (LQD), and leverage (LEV) show no significant statistical relationship with audit fees contrary to Chen et al. (2010) who indicate that leverage shows to have a negative significant relationship with firm performance.

TABLE 3 - Panel Regression Using Robust Standard Error (Random - Effects GLS regression)

Ln Audit Fees	Coefficient	z-statistics
Intercept	4.846	14.680***
Role Duality	-0.361	-3.230***
Board Size	0.079	9.130***
Board Independence	0.917	12.480***
Audit Committee Size	0.016	0.940
Audit Committee Independence	-0.190	-1.490
Audit Committee Meetings	0.112	5.260***
Financial Expert	-0.209	-2.800**
Ownership Concentration	-0.270	-2.450**
Ln Total Assets	0.515	33.230***
Return on Assets	-0.006	-0.020
Liquidity	-0.093	-0.820
Leverage	-0.370	-1.340
Oil & Gas	-0.403	-3.340***
Basic Materials	-0.128	-1.250
Consumer Goods	-0.194	-2.140**
Industrials	0.432	4.830***
Consumer Services	-0.204	-1.990**
Telecomm.	-0.095	-0.400
Health Care	0.097	0.470
Technology	(omitted)	
Years		Yes
R-squared		0.601
Number of groups		4
N		908

*p < .10, **p < .05, ***p < .01

4.2.1

Additional testing

Table four presents the statistical relationship among variables using the 2SLS regression test. Using the Durbin-Wu Hausman test, the industry and control variables are lagged. Accordingly, an average of one year is excluded. The 'Lag model' is a regression used to predict the current

value of the dependent variable based on the current and past values of explanatory variables. The lagged technique retains the validity of ordinary Least-square regression. Except for RD and ACI, all independent variables show the same results to those stated for the results reached. It is better to rely on OLS tests when variables are exogenous (Söderbom, 2009).

Ln Audit Fees	Coefficient	z-statistics
Intercept	5.682	9.500***
Role Duality	-0.337	-1.570
Board Size	0.137	5.860***
Board Independence	1.867	4.020***
Audit Committee Size	-0.055	-1.030
Audit Committee Independence	-0.339	-2.330**
Audit Committee Meetings	0.097	3.630***
Financial Expert	-0.565	-2.060**
Ownership Concentration	-0.594	-2.240**
Ln Total Assets	0.432	10.110***
Return on Assets	-0.523	-0.520
Liquidity	-0.335	-1.450
Leverage	-0.512	-1.990**
Oil & Gas	-0.265	-1.370
Basic Material	-0.031	-0.170
Consumer Goods	0.010	0.050
Industrial	0.579	3.560***
Consumer Services	-0.164	-0.980
Telecomm.	0.158	0.560
Health Care	0.225	0.950
Technology	(omitted)	
Years		Yes
R-squared		0.588
N		619

TABLE 4 - 2SLS Regression Test

*p < .10, **p < .05, ***p < .01

The 'Lag model' is a regression used to predict the current value of the dependent variable based on the current and past values of explanatory variables. The lagged technique retains the validity of ordinary Least-square regression. Except for RD and ACI, all independent variables show the same results to those stated for the results reached. It is better to rely on OLS tests when variables are exogenous (Söderbom, 2009).

5 CONCLUSION, IMPLICATION AND RESEACH LIMITATION

Previous studies have been conducted to assess audit fees in relation to different governance mechanisms. O'Sullivan (2000) states that role duality and block holders have no impact on audit fees. The latter lacks the inclusion of audit committee variables, which differentiate our study from previous ones. On the other hand, Zaman et al., (2011) lacks the inclusion of ownership concentration and board of directors' variables as independent variables. Our results indicate that audit fees have a significant positive relationship with board size and independence and a negative relationship with role duality. It can be concluded that within the British context, an independent and bigger board of directors with diverse backgrounds leads to higher audit fees. It is said that independent directors demand a better audit reputation (Chen and Zhou, 2007). The results show that role duality tend to lower audit fees. When two positions are being managed by one individual, the decision making process is facilitated leading to less excessive demands in relation to audit matters.

As for audit committee variables and their impact on audit fees, the results show a positive significant relationship between audit committee meetings and audit fees. It is supported that audit committees exercise more efforts for better surveillance (Ariningrum and Diyanty, 2017). The preponderance of financial experts within an audit committee is negatively related to audit fees. Contrary to the hypothesis, this result indicates that auditors incur additional time when the audit committee lacks financial experts.

The paper focuses on the demand side of audit pricing and how agency cost plays a critical role in establishing an effective or a weak corporate governance. It can be concluded that the less agency cost, the less is the demand for better audit services that is associated with more audit fees. Controlling shareholders do not face any major information asymmetry for them to demand more audit services.

The results of this study give signalling indicators to audit firms and companies in terms of audit fees. The positive impact of board of directors' size and independence indicate the need for larger boards with diverse backgrounds if companies are seeking for better audit quality. If companies are seeking to lower audit fees, it is recommended to have their chairperson and CEO positions to be held by one person since our results show that role duality leads to lower audit fees. In terms of audit committee, if companies are looking for better financial reporting process and high audit quality, audit committees should be active and vigilant by holding frequent meetings other than the regular quarterly meetings. In periods where companies are seeking cost reduction, companies with concentrated ownership are those who will benefit from lower audit fees. Compensation for financial experts would also lead to lower audit fees in period where companies have a tendency to lower their expenses. The expertise of the audit committee member(s) is expected to subsidise highly paid auditors.

It is noted that most of the previous literature focused on audit fees without differentiating between audit fees arising from mandatory or voluntary assignments delivered by audit firms. We selected mandatory audit fees, and not total auditors' remuneration that may include, audit fees, advisory fees, consultancy fees etc. Auditors engaged to deliver mandatory audit assignments are

legally more liable compared to auditors performing other advisory on-demand assignments. Non-audit fee is excluded to avoid questioning auditors' independence (Wines, 1994).

Another way to explore audit fees in relation to governance mechanisms and companies' characteristics might be through conducting a survey (questionnaire or interviews) with companies' personnel. This may help in understanding the perception of management and staff about the impact of governance mechanisms on audit fees. It should give additional evidence on factors affecting audit fees in addition to the factors and results concluded from the use of an econometric model and regression tests.

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